

September 15, 2003

Honorable Mayor and Members  
of the City Council  
City of Rockwood  
32409 Fort Street  
Rockwood, MI 48173

Dear Mayor and Council Members:

We have recently completed the audit of the financial statements of the City of Rockwood, Michigan for the year ended June 30, 2003. In addition to the audit report, we offer the following comments for your consideration:

#### **STATE SHARED REVENUE**

The City has and will continue to feel the effects of the slow down in the State's economy. State shared revenues account for approximately 18% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems (which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget), revenue sharing payments for the State's fiscal years ended September 30, 2002 and 2003 were less than the State's original projections.

The previous Governor's original budget recommendation for fiscal year 2002/2003 was to keep total revenue sharing payments to cities, villages, townships, and counties constant (or frozen) at the fiscal year 2001/2002 level. This recommendation included a reduction of approximately \$112 million from what the statutory formula would have otherwise allowed. As was well publicized, following the introduction of the previous Governor's fiscal year 2002/2003 budget, there was an attempt in July 2002 to veto all statutory revenue sharing from the State's 2002-2003 budget. The attempt was not successful and the veto was overridden by the Michigan Legislature. However, in December 2002, revenue sharing was cut another \$53 million by an Executive Order of the previous Governor.

Currently, the budget proposed for the State's 2003/2004 fiscal year included another reduction to state shared revenue of 3% from fiscal year 2002/2003 levels. This version of the budget was ultimately adopted by the Michigan Legislature. While the State's budget has been approved for their 2003/2004 fiscal year, it includes several very significant assumptions which may not be realized. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state shared revenue, as this line item in the State's budget remains vulnerable.

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### **STATE SHARED REVENUE (continued)**

During the State's 2001 fiscal year, the City of Rockwood received \$419,145 in state revenue sharing. Currently, for the State's 2004 fiscal year the City is budgeted to receive \$371,130. This represents a decrease of \$48,015 (11 ½ percent) over a three-year period. We will continue to update the City as developments occur.

### **BANK RECONCILIATIONS**

While performing our audit, we noted that the bank statements for the City's Common cash account were not reconciled to the general ledger during the year. The Common account includes the cash activity for the General Fund as well as for several other City funds. It appears that the main factor contributing to this situation was the need to modify or develop accounting procedures to interface with the City's new accounting software. We understand that the City is currently taking steps to address this issue.

### **ACCOUNTING MATTERS**

There were a number of items we noted related to accounting procedures, some that we have previously commented upon, that we believe would benefit from further attention:

Currently, cash received at the community center is brought over to City Hall on a non-systematic timeline. To strengthen internal controls, we would suggest that a schedule be developed and adhered to related to the timeliness of community center cash deposits. We understand that the new director will, or has, rectified this situation.

During our testing, we noted a lack of regular reconciliations between sub ledgers and the general ledger. We recommend that timely, regular reconciliations be performed related to all account details, including the following items:

- Performance Bonds and deposits
- Interfund activity (including the Community Development Block Grant Fund)
- Agency Fund accounts
- Federal draw down requests
- Water and sewer accounts receivable
- Pass through account balances
- Tax collections

We noted that some pre-dated checks were issued. The City staff understands that checks should always be accurately dated to maintain increased accounting control. We understand that the situation arose as a result of an apparent inflexibility of the accounting system as explained to the City by the software vendor. We understand that this shortcoming has since been rectified.

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## **BUDGETING**

In the current year, the City did not prepare and approve an official budget for all of its Special Revenue funds. Under the State Budget Act, the City is required to approve a budget for the General Fund and all Special Revenue funds on an annual basis, even those with modest levels of activity.

## **PASS THROUGH ACTIVITY**

Currently the City acts as a middleman between property owners and third-party inspectors. When various inspections are required, the City takes deposits from the property owners and then later pays the inspection bills. This creates the accounting responsibility to track the deposits and payments. Often times the City makes payments in excess of the deposits received from property owners and is then required to collect the additional funds. In addition, the deposits currently are not reconciled to the general ledger. We suggest that the City reconsider the advisability of acting in this capacity in light of the indirect costs involved and no longer accept deposits related to property inspections and allow the property owners to deal directly with the inspectors related to billings.

## **COMPUTER SECURITY**

As organizations have become more reliant on computer technology to deliver core business processes, it is increasingly apparent that attention needs to be given to the security of our computer systems. While the private sector has been forced to devote significant resources to this area for a couple of years now, organizations in the public sector are beginning to see the need for similar attention. Items for consideration include the ability of employees to access or manipulate data or programs inappropriately, firewalls for Internet access points, and physical security/disaster recovery plans.

An organization's data assets are such that their loss or impaired usage can have devastating consequences. As a result, we strongly recommend that you assess your information systems and network environments, and develop strategies to ensure that risks associated with down time, hacker intrusions and virus attacks are minimized in a secured environment. We believe it is prudent to assess your risk and to implement security improvements to avoid the negative implications. Plante & Moran has developed a computer security review and penetration testing approach that is tailored for governments.

We can assist your organization in implementing the necessary security and networking technology to achieve the level of security your organization requires.

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### **GASB 34**

As we have previously discussed with you, the Government Accounting Standards Board (GASB) has issued a major new pronouncement (GASB Statement No. 34) that will drastically change the way the City's financial statements will look. For the City of Rockwood, this pronouncement is effective beginning July 1, 2003. Some of the changes, as a result of GASB 34, include:

- The addition of a Management's Discussion and Analysis section to the financial statements
- The preparation of full accrual, government-wide financial statements which include all long-term assets and liabilities.
- The recording and depreciation of all governmental assets, including infrastructure (roads, sidewalks, etc.)
- Functional reporting of revenue and expense

During the next several months, we will be available to assist the City in gathering, interpreting, and formatting the information necessary to implement GASB 34 and to educate the City Council and others on how to read and interpret the new statements. Please note that this implementation will require a significant effort by the City's finance staff throughout the year. We have assisted many communities with the implementation of GASB 34 and we look forward to the opportunity to assist the City in managing its transition to GASB 34.

### **REPORTABLE CONDITIONS**

Reportable conditions are significant deficiencies in the design or operation of the internal controls structure that have come to our attention and, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In planning and performing our audit of the financial statements of the City of Rockwood for the year ended June 30, 2003, we considered the City's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal controls. The purpose of an audit is to report on the financial statements, rather than provide assurance on the internal control structure; however, we would consider the items mentioned under the "Bank Reconciliations" section and the paragraph related to reconciliations under the "Accounting Matters" of this letter to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

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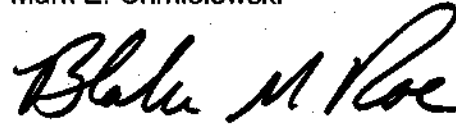
We would like to thank the City staff again this year for the cooperation and assistance they provided during the audit. If you have any questions, or would like to discuss these items further, please feel free to contact us at your convenience.

Yours truly,

**PLANTE & MORAN, LLP**



Mark E. Chmielewski



Blake M. Roe